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September 1, 2009

VIA E-FILING

Charles L.A. Terreni, Esquire
Chief Clerk of the Commission
SC Public Service Commission
P. O. Drawer 11649
Columbia, SC 29211

RE: Review of Avondale Mills, Incorporated's Rates
Approved in Order No. 2009-394
Docket No. 2009-342-WS

Dear Mr. Terreni:

Enclosed please find the pre-filed **Direct Testimony of Jack R. Altherr, Jr.** filed on behalf of Avondale Mills, Incorporated in the above referenced docket. By copy of this letter, I am serving all parties of record.

If you have any questions or if I may provide you with any additional information, please do not hesitate to contact me.

Sincerely,

ELLIOTT & ELLIOTT, P.A.



Scott Elliott

SE/jcl

Enclosures

cc: Parties of record w/enclosures

State of South Carolina
Before the
South Carolina Public Service Commission

RE: Review of Avondale Mills, Incorporated's) Docket No. 2009-342-WS
Rates Approved in Order No. 2009-394)

Direct Testimony
Of
Jack R. Altherr, Jr.

On Behalf of
Avondale Mills, Inc.

September 1, 2009

1 **Q. Please state your name and business address.**

2 A. My name is Jack R. Altherr, Jr., my business address is 506 South Broad Street, Monroe,
3 Georgia 30655.

4 **Q. Where are you employed and in what capacity?**

5 A. I am employed by Avondale Mills, Inc. ("Avondale") where I serve as Vice Chairman,
6 President, CEO and CFO.

7 **Q. What is your educational background and work experience?**

8 A. I graduated from the University of Alabama with a BS in Chemistry in 1971. I earned
9 my MBA from the University of Alabama in 1976. I served in the US Naval Reserve
10 from 1971-1974. As a Lieutenant Junior Grade, I served as a Disbursing Officer at
11 Guantanamo Bay, Cuba. As a CPA, I was employed by Arthur Young & Company in
12 Alabama where I served as an auditor and consultant from 1976 to 1981. In 1981 I was
13 employed by the Birmingham Bolt Company as controller. I joined Avondale Mills, Inc.
14 in 1982 where I have worked continuously since.

15 **Q. What is the purpose of your testimony in this proceeding?**

16 A. The purpose of my testimony is to address the request to alter, amend or rescind Order
17 No. 2009-394 submitted by Senator Shane Massey, Representative J. Roland Smith and
18 Representative Tom Young, Jr. in their correspondence of August 4, 2009, and to discuss
19 Avondale's efforts to maintain and improve the operation of its water and sewer systems
20 since Order No. 2009-394 was issued.

21 **Q. Are you familiar with the steps taken by Avondale to seek rate relief in Docket No.**
22 **2008-460-WS?**

23 A. Yes. I was directly involved in the preparation of the application and my testimony in

1 that docket; I cooperated with the Office of Regulatory Staff (“ORS”) on Avondale’s
2 behalf and provided the ORS all of the material they requested in their audit and analysis
3 of our rate increase.

4 **Q. Are you familiar with the record in Docket No. 2008-460-WS?**

5 **A.** Yes.

6 **Q. Please describe the record in Docket No. 2008-460-WS?**

7 **A.** On December 23, 2008, Avondale filed its application for approval of a new schedule
8 of rates and charges and for modification to certain terms and conditions for the provision
9 of water and sewer services for its customers in South Carolina. As I testified, I was
10 directly involved in the preparation of the application filed in this docket and I have
11 attached the application filed December 23, 2008, in Docket No. 2008-460-WS as
12 Exhibit A to my testimony. After filing its rate application, the record will reflect that
13 Avondale published the notice of proposed rates in the Aiken Standard and mailed the
14 notice of proposed rates to its customers.

15 In addition, G. Stephen Felker, Jr., Avondale’s Vice-President of Corporate
16 Development, and I testified in the hearing June 2, 2009, in Docket No. 2008-460WS. A
17 copy of my testimony and that of Mr. Felker entered into the record of Docket No. 2008-
18 460-WS are attached to my testimony as Exhibits B and C, respectively.

19 **Q. Did the Office of Regulatory Staff participate in the June 2, 2009, hearing?**

20 **A.** Yes. The ORS presented the testimony of Willie J. Morgan, Program Manager for the
21 Water and Wastewater Department and Christina A. Stutz, Auditor. The testimony of
22 Mr. Morgan and Ms. Stutz was accepted into the record of Docket No. 2008-460-WS and
23 is attached to my testimony as Exhibits D and E, respectively.

1 **Q. Did the Commission grant Avondale rate relief in Docket No. 2008-460-WS?**

2 A. Yes. The Commission issued Order No. 2009-394 granting Avondale the water and
3 sewer rates it requested in its application, as well as, modification of certain of the terms
4 and conditions of Avondale's tariff. Avondale has placed the rates authorized by Order
5 No. 2009-394 into effect as required by the Commission order.

6 **Q. Have the facts and circumstances which formed the basis of the findings of fact and**
7 **conclusions of law set out in Commission Order No. 2009-394 changed?**

8 A. No. Avondale's circumstances and the facts underlying Commission Order No. 2009-
9 394 are as compelling and binding as on June 18, 2009, when Order No. 2009-394 was
10 issued. The Commission concluded that the schedule of rates granted in Order No. 2009-
11 394 was designed to be just and reasonable. Order No. 2009-394 found that the rates
12 granted Avondale were necessary to ensure the economic viability of its system. Indeed,
13 the Commission concluded that the financial and structural survival of Avondale's
14 system required the rates granted. The ORS advises in its August 31, 2009,
15 correspondence that it performed a thorough examination of Avondale's application,
16 books and records in Docket No. 2008-460-WS giving rise to Order No. 2009-394 and
17 that it was unaware of any significant change in the company's operations, books and
18 records for the test year that would materially change its audit findings or
19 recommendations.

20 **Q. What steps has Avondale taken to address service and maintenance issues as urged**
21 **by the Commission in Order No. 2009-394?**

22 A. After the Commission's approval of Avondale's new rates in Order No. 2009-394, and in
23 reliance on the increased revenues approved by Order No. 2009-394, Avondale began to

1 address the needs of its water and sewer system as urged by this Commission. Since its
2 rates were granted, Avondale has taken the following actions with respect to the
3 maintenance and improvement of its water and sewer systems:

4 Avondale installed a variable frequency drive to a booster pump at the Vacluse Pump
5 Station on July 23, 2009, at a cost of approximately \$6,000-\$7,000 to improve the
6 pressure of a portion of the system which is the subject of a consent order with the South
7 Carolina Department of Health and Environmental Control ("DHEC"). This was in
8 addition to the replacement of the Laurel Drive booster pump on May 22, 2009. Willie
9 Morgan of the ORS had observed water leaking from the old pump during his inspections
10 for the rate case. The seals of the pump were old and replacements were no longer
11 available, so a new pump was installed at a cost of approximately \$9,000-\$10,000.

12 Avondale engaged an engineering firm to prepare plans for aerial rerouting of sewer line
13 currently attached to bridge of roadway over creek. Once plans are completed, total
14 project cost to reroute the sewer line is estimated to be \$80,000-\$90,000.

15 Avondale purchased 650 new customer meters to replace all existing meters which are
16 generally over 30 years old and engaged a plumbing firm to perform the replacement
17 beginning September 2, 2009. Replacement will improve the accuracy of the measured
18 volume of water sold to our customers and is expected to reduce our unaccounted water
19 loss. Total cost of the new meters and installation is expected to be \$65,000-\$70,000.

20 Avondale purchased six new master water meters to record flow of water through
21 significant portions of the system. This will allow the amount of water losses to be
22 determined for specific areas of the system and therefore assist in our identification of the
23 location of these water losses and their elimination. Total project cost is expected to be

1 \$65,000-\$70,000.

2 During our negotiations to transfer the water and sewer systems to Valley Public Service
3 Authority (“Valley”), Avondale agreed to pay \$175,000 to fund a preliminary
4 engineering study of the water system and to purchase a previous engineering report
5 performed for Breezy Hill Water and Sewer Company. Subsequent to that commitment,
6 Avondale has agreed to reimburse Valley for up to \$200,000 of additional engineering,
7 legal and other fees relating to the proposed transfer of our systems. These costs are
8 being incurred to meet DHEC requirements in connection with \$6 million in federal
9 stimulus funds earmarked for these systems and to be received by Valley if the transfer is
10 completed by February 2010. In addition, Avondale is prepared to pay Valley an
11 additional \$1 million at closing (less any amounts of the \$200,000 advanced not spent
12 toward additional engineering and other fees). If a transfer of Avondale’s system to
13 Valley is completed, Valley has expressed its intent to use Avondale’s new rates for
14 approximately one year so Valley can complete the transfer of Avondale’s systems into
15 Valley’s systems. Of course, Avondale is also incurring significant legal fees in the
16 negotiation and execution of a transfer agreement and achieving all actions required to
17 close that transaction. In addition, Avondale is incurring costs and attorneys fees in
18 related litigation in the Courts.

19 **Q. What steps has Avondale taken to reduce water loss?**

20 A. Avondale inspects its water lines routinely looking for water leaks. In late June,
21 Avondale employees found a corroded, exposed pipe under a road or bridge estimated to
22 be leaking at least 80 gallons of water per minute. Repair of this pipe appears to have
23 made a major reduction to our water purchases. Avondale reduced its water purchases to

1 8.0 million gallons in July, a reduction from 12.6 million gallons purchased in June 2009.
2 Avondale billed its customers for 5.3 million gallons in July. Avondale needs to do
3 more, and we anticipate that the installation of the new residential water meters and
4 master water meters will permit us to record system water use more accurately and
5 monitor the flow so as to assist us in isolating portions of our system where we cannot
6 explain losses. Detecting and correcting leaks is an ongoing process at Avondale.

7 **Q. Are Avondale's bills consistent with the record in Docket No. 2008-460-WS and**
8 **compliant with Order No. 2009-394?**

9 A. Yes. The record in Docket 2008-460-WS reflects an increase in revenue from
10 approximately \$111,000 to \$724,000. The fact that customer bills increased 6 to 7 times
11 previous amounts billed should come as no surprise. Although customer residential and
12 irrigation water consumption was evident from the records provided to the ORS as a part
13 of its audit in Docket No. 2008-460 WS, the fact that some of our customers were using
14 as much as 80,000 gallons of water or more for irrigation gave rise to large bills issued
15 under the new rates. Were it not for excessive irrigation practices of Avondale's
16 customers, the bills under the new rates would clearly be seen as in line with
17 expectations.

18 **Q. Is the operating margin granted Avondale in Order No. 2009-394 fair and**
19 **reasonable?**

20 A. Yes. As I have said, the facts and circumstances giving rise to Commission Order No.
21 2009-394 have not changed since June 18, 2009. The evidence of record in Docket No.
22 2008-460-WS is still credible and compelling today. The Commission recognizes that
23 Avondale must have sufficient revenue from rates to make it economically viable to

1 permit Avondale to operate and maintain its system adequately. As found by the
2 Commission in its Order No. 2009-394, the rates are not designed to provide excessive
3 income or revenues at the expense of Avondale's customers. In fact, the operating
4 margin granted Avondale in Order No. 2009-394 is consistent with the margin
5 recommended by the ORS for water and wastewater utilities operating in the State of
6 South Carolina.

7 **Q. What resolution of this matter do you request of the Commission?**

8 **A.** The rates granted by the Commission in Order No. 2009-394 were just and reasonable
9 and have allowed Avondale the opportunity to earn additional revenue with which to
10 meet its obligations to its customers. Avondale has provided the Commission and the
11 ORS all of the information requested of it in both this docket and in Docket No. 2008-
12 460-WS. Avondale's customers had notice of its proposed rates and had an opportunity
13 to participate in Docket No. 2008-460-WS both at the public hearing in Graniteville,
14 South Carolina on May 26, 2009, and also at the hearing on the merits here in Columbia
15 held on June 2, 2009. Avondale submits that Order No. 2009-394 is in all respects lawful
16 and should be upheld. Because of the orders of the Commission and the Courts enjoining
17 collection of certain of Avondale's bills, there is considerable customer confusion over
18 the bills that are due and payable and there is great uncertainty as to Avondale's ability to
19 collect the full amount of bills under the new rates. To clarify confusion over Avondale's
20 rates and to restore Avondale to economic viability, I would urge the Commission to act
21 quickly to deny the request to alter, amend or rescind Order 2009-394 issued June 18,
22 2009 and leave Commission Order No. 2009-394 in effect and in all respects binding.

23 **Q. Does this conclude your testimony?**

1 A. Yes.

CERTIFICATE OF SERVICE

The undersigned employee of Elliott & Elliott, P.A. does hereby certify that she has served below listed parties with a copy of the pleading to the persons indicated below by mailing a copy of same to them in the United States mail, by regular mail, with sufficient postage affixed thereto and return address clearly marked on the date indicated below:

RE: Review of Avondale Mills, Incorporated's Rates
Approved in Order No. 2009-394

DOCKET NO.: 2009-342-WS

PARTIES SERVED:

Jeffrey M. Nelson, Esquire Shealy Boland Reibold, Esquire Office of Regulatory Staff P. O. Box 11263 Columbia, SC 29211	The Honorable Shane Massey The Honorable J. Roland Smith The Honorable Tom Young, Jr. Aiken County Legislative Delegation 828 Richland Avenue, West Aiken, SC 29801
A. Shane Massey, Esquire Nance, McCants & Massey P. O. Box 2881 Aiken, SC 29802	Thomas R. Young, Jr., Esquire Whetstone Myers Perkins & Perkins. P. O. Box 651 Aiken, SC 29802
The Honorable Michael Hunt 509 Laurel Drive Graniteville, SC 29829	Joe A. Taylor 105 Laurel Drive Graniteville, SC 29829

PLEADING: DIRECT TESTIMONY OF JACK R. ALTHERR, JR.


Jackie C. Livingston, Paralegal

September 1, 2009